

# HORIZON

trends and issues to watch, ideas and innovations to use

## Putting Higher Education Back in Reach

*The cost of a public four-year degree has risen sharply*, in part because public colleges across the country no longer receive generous government subsidies to help keep tuition rates low, according to a recent editorial. With budget cuts, public funding nationally has fallen below 20 percent of total revenue at many schools. In turn, low- and middle-income families or students are taking on mountains of debt to finance college costs. For some, tuition and other costs add to the difficulties those who most need higher education already face. Some researchers believe this cost burden is discouraging would-be college students and causing our nation to fall farther behind.

One observer notes that when states pay their universities to hold down tuition rates, they are indirectly subsidizing all students equally, regardless of financial need. Alternatively, he suggests that states invest their higher education dollars strategically by turning at least part, if not all, of each public four-year university into a private, nonprofit corporation, with legislation to protect research grants and centers and honor personnel and pension obligations. Each school's subsidy would be phased out to enable campuses to grandfather in current students and adjust to the new environment. The freed-up subsidy dollars would be allocated to scholarships, valid at any accredited four-year college in the state, for new undergraduate and graduate students. The scholarships could go primarily to middle- and low-income students, with some reserved for engineering majors, math teachers, or other groups that meet state needs. Middle- and low-income students' degree costs would significantly decrease as universities and colleges scrambled to attract scholarship-holding students.<sup>1</sup>

**Possible Implications for Kentucky:** Rising college tuition rates and student debt burdens have significant implications for a state that must increase its population of college-educated citizens if it is to overcome a legacy of poverty. As a private good, access to—and successful completion of—college, along with home ownership, has come to define the middle class in

## Higher Education Affordability, Kentucky and Surrounding States, 2004

	IL	IN	KY	MO	OH	TN	VA	WV	Top States*
<b>2004 AFFORDABILITY GRADE</b>	D	D	D-	F	F	F	D-	F	
<b>FAMILY ABILITY TO PAY</b>									
Percent of income (average of all income groups) needed to pay for college expenses minus financial aid:									
at community colleges	21%	24%	21%	19%	27%	23%	19%	27%	15%
at public 4-year colleges/universities	30%	29%	22%	27%	36%	27%	26%	29%	16%
at private 4-year colleges/universities	62%	61%	52%	50%	62%	65%	51%	58%	32%
<b>STRATEGIES FOR AFFORDABILITY</b>									
State investment in need-based financial aid as compared to the federal investment	78%	85%	40%	12%	31%	18%	35%	28%	89%
At lowest priced colleges, share of income poorest families need to pay for tuition	14%	18%	20%	15%	22%	21%	13%	18%	7%
<b>RELIANCE ON LOANS</b>									
Average loan amount that undergraduate students borrow each year	\$3,615	\$3,231	\$3,018	\$3,240	\$3,380	\$3,224	\$3,521	\$3,046	\$2,619
Note: The lower the figures the better the performance for all indicators except "State investment in need-based financial aid."									
* These figures represent the median score of the top five states in each category.									
Source: <i>The National Center for Public Policy and Higher Education</i>									

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21st century America. As a public good, increasing levels of education attainment are key to maintaining global economic and intellectual leadership. To remain competitive with surrounding states, Kentucky must provide quality higher education opportunities without creating an undue financial burden on those who pursue them. Arguably, a more educated populace is the Commonwealth's most important goal, and affordable, accessible higher education is central to its realization.

## Retiree Crisis Looms as Pension and Health Care Benefits Vanish


**Many of the remaining traditional defined-benefit pension plans in both the private and public sectors are deeply in the red.** In the public sector, unfunded pension liabilities are often blamed on such factors as the stock market drop. But, according to the National Association of State Retirement Administrations and National Council on Teacher Retirement, the problem is an aggregate unfunded liability of nearly \$296 billion for the 103 pension systems and 127 total plans in their Public Fund Survey.<sup>2</sup> The secure future baby boomers foresaw in their pension plans, Social Security, and Medicare will ultimately be burdened by the sheer numbers of retirees,<sup>3</sup> but these findings, as well as recent private sector experiences, show that the failure to make actuarially sound investments in long promised pension and health benefits is at the root of most shortfalls.

American corporations argue that to compete against foreign companies with low or no benefit costs and domestic rivals with younger workforces and less generous benefit packages, they must reduce obligations to their retirees. Only a third of companies with 200 or more employees offered any health care benefits to their retirees in 2005, down from 66 percent in 1988. Small firms, which employ about half of the workforce, rarely offered generous retirement benefits, and those that still offer their retirees health insurance have been trimming the plans.<sup>4</sup> Too, thousands of state and local governments have promised generous health care benefits to millions of employees when they retire, yet experts say that virtually none have kept track of the mounting price tag.<sup>5</sup> Nationally, health care costs alone now consume 16 percent of the gross domestic product.<sup>6</sup>

**Possible Implications for Kentucky:** Kentucky faces huge fiscal challenges if it is to honor the pension and health commitments made to its public employees. While this required state funding obligation may crowd out other funding in the future, the longer the state forestalls meeting its obligations, the greater the cost. Both public and private employers are struggling to pay for health care benefits for current employees and retirees, a circumstance that ultimately will compel a closer examination of how we finance health care in the United States and how we can realize savings. As our population ages, the demand for health care services will likely rise though increased education and income levels among older citizens may moderate these costs. The forceful clout older voters have historically wielded, however, will not likely moderate. Instead, as the financial fortunes of older citizens continue to be undermined, the pressure for change will likely mount.

## Primary Care, the Foundation of Health Care, on Verge of Collapse

**The health care system cannot function without doctors and other clinicians who are experts in primary care,** working to prevent illness, manage complex chronic diseases, care for pregnant women and their babies, and attend to mental health and substance abuse problems. Today, an estimated 46 million people are uninsured, and emergency rooms are being overwhelmed by patients who do not have health insurance or a regular physician. The latter is due in large part to the dwindling ranks of primary and family care doctors and general internists. The number of medical students entering family medicine residencies has declined 52 percent in seven years, partly because reimbursement rates for primary care have declined, student loan debts have skyrocketed, and caring for an aging population is complex and challenging. Today, some frontline physicians are declining new or limiting Medicare and Medicaid patients for precisely these reasons. The shortage of primary care physicians in community health centers is an early sign of another structural weakness in America's health care system. Research has shown that regions with more primary care physicians have better health outcomes at lower cost.<sup>7</sup>

**Possible Implications for Kentucky:** To help contain the cost of health care and ensure a physician force that is adequate to meet public need, would-be doctors must be given incentives to practice frontline medicine, which is often more time consuming but reimbursed at a far lower level than specialist care. And, as the Dartmouth Atlas of Health Care has shown, higher levels of specialist care are associated with higher costs but not better health outcomes. Ultimately, our society must place greater value on primary and family care physicians and general internists. It can do so by creating incentives for entering these vital medical professions. Increased reimbursement levels and less costly career paths are a good beginning. Already, some primary care physicians in the state have begun to limit their Medicare and Medicaid patient load, making our oldest and sickest citizens even more vulnerable. Fair and adequate reimbursement for primary care is key, as these programs lead the way for private insurance companies. 

### Sources:

<sup>1</sup> James C. Garland, "How to Put College Back in Reach," editorial, *The State Journal* 4 Jan. 2006.

<sup>2</sup> *National Center for Policy Analysis*, "Public-Sector Pension Crisis Worsens," *Daily Policy Digest* 30 March 2006.

<sup>3</sup> "Attention, Baby-boomers," *The Journal News* (New York) 3 Jan. 2006.

<sup>4</sup> Eduardo Porter and Mary Williams Walsh, "Benefits Go the Way of Pensions," *The New York Times* 9 Feb. 2006.

<sup>5</sup> Milt Freudenheim and Mary Williams Walsh, "The Next Retirement Time Bomb," *The New York Times* 11 Dec. 2005.

<sup>6</sup> "AARP Reports on 50+ America: Health Care Indicators and Income on the Decline for Mid-Life and Older Americans," American Association of Retired Persons <[thetaturemarket.com](http://thetaturemarket.com)> 2 March 2006.

<sup>7</sup> Roger A. Rosenblatt, "The Collapse of Primary Care," *The Seattle Times* 29 March 2006.